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S E C R E T SECTION 01 OF 03 BAGHDAD 000084

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TAGS: [EPET](#) [ENRG](#) [SENV](#) [EINV](#) [PGOV](#) [IZ](#)  
SUBJECT: OIL MINISTER ON BID ROUNDS, KRG RELATIONS,  
HYDROCARBONS LEGISLATION, SERP, EITI

REF: A. BAGHDAD 45  
[B](#). 08 BAGHDAD 4014  
[C](#). 08 BAGHDAD 3729  
[D](#). 08 BAGHDAD 3467

Classified By: CETI Ambassador Marc Wall, reasons 1.4(b,d,e,g)

[1](#). (C) Summary: In a January 4 meeting with EMIN, Oil Minister Shahrستاني stated that the MoO will add 250,000 barrels of oil production over 2009 through additional capacity and KRG oil exports. He said that the fields offered in the first bid round, opened on October 13, 2008, and the fields announced for bid on December 31 would also add an additional 4 million barrels per day (mbpd) production in five years. He noted that he did not expect the hydrocarbons legislation (HCL) to pass anytime soon. The Minister requested USG assistance on completing the Pipeline Exclusion Zones (PEZ) and the surveys in northern Persian Gulf in support of the Southern Export Redundancy Project (SERP). While supportive of the Extractive Industries Transparency Initiative (EITI), he did not commit to attend the EITI summit in Doha.

#### Increased production

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[2](#). (S) On January 4, Minister of Oil Husayn al-Shahrستاني said that the Ministry of Oil (MoO) produced 2.4 mbpd of crude oil in 2008 and optimistically forecast that, by implementing a plan to increase daily production by 250,000 barrels per day, MoO would reach 2.5 mbpd before the end of [2](#)009. As an example of the difficulties faced, Shahrستاني complained that the KRG had seized MoO equipment in the Khurmalah Dome field, which deprived Iraq of an additional 100,000 bpd production. The Minister said that the KRG had promised to return the equipment and had not carried through on its promises. He noted that, in general, not just with Khurmalah Dome but also on export of KRG crude oil, the KRG constantly made agreements and promises, but never followed through on its commitments. (Comment: The Khurmalah Dome field continues to be an issue between the KRG and MoO, but Shahrستاني's information might be dated. At this time the KRG and the MoO seem to be cooperating well on the field and the field is currently producing.)

[3](#). (S) Shahrستاني told EMIN that the KRG had approximately 250,000 bpd production available from two fields. (Note: These fields are probably Tawke in Dahuk province and Taqtaq in Erbil province. End note.) He said that the MoO and KRG had agreed to the technical terms to connect the fields to the MoO export pipelines, but that they remained divided on the method of payment for the contracts the KRG had signed. He said the KRG had not paid the companies to date despite the fact that the KRG receives 17 percent of the national government's overall oil revenue. Moreover, the MoO had still not been given a copy of the current contract the KRG signed with the International Oil Companies (IOC) and

therefore could not agree to any payment to the companies. Shahrستاني concluded that, if the MoO must pay the IOCs, then it should take over the contracts and the IOCs should interact with the MoO directly. (Comment: The Tawke field's pipeline is already or nearly connected to the Iraq/Turkey pipeline. The Taqtaq field would require a pipeline to be built to the K-1 pump station in Kirkuk, which would take approximately 12 months to complete. The immediate impact of an agreement between the KRG and the MoO to export oil would be between 50,000 bpd and 100,000 bpd of extra exports, reaching approximately 200,000 bpd within 12 to 18 months. Under production sharing contracts (PSCs), the KRG's payment to the IOCs should be through production sharing (in the form of barrels of oil) and not monetary payments directly from the KRG as the Minister suggests. Minister Shahrستاني, however, has declared the KRG PSCs illegal under the current constitution and draft hydrocarbons legislation. These contracts would need to be renegotiated should the MoO become a party to them, or the MoO would have to reverse its current stance. End comment.)

#### Status of Licensing Rounds

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14. (C) On December 31, 2008, Shahrستاني had announced 11 new fields and groups of fields available for a second bid round. He told EMIN that the new fields should add between 1.5 mbpd and 2.5 mbpd of production to Iraq's average within five years. Combined with the expected 1.5 mbpd new production from the fields offered in the October 13, 2008, licensing round, the latest round would bring Iraq's production to 6

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mbpd production within five years. This production level would be well ahead of the MoO's previous target of reaching 6 mbpd in 10 years. Shahrستاني also expressed his satisfaction regarding progress on the first bid round, since 30 information packets had already been purchased. If even half resulted in serious bids, the bid round would be successful. Shahrستاني acknowledged that the current world economic climate would not require additional Iraqi production over the next three years, but that, after five years, demand will return.

#### Relations with Parliament

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15. (C) The Minister quipped that the brief appearance of a hydrocarbons legislation draft in the COR (ref D) did not represent any progress in getting the draft passed. He maintained that the copy of the law, which appeared briefly in the COR, was the same draft agreed to in February 2007. He added that the MoO had not changed the law, but that the KRG required several, allegedly minor, amendments. Shahrستاني complained that, in fact, the amendments desired by the KRG were major changes and that he did not anticipate passage of the law anytime soon. He noted that the MoO crafted the first bid round to comply with the current draft law. This would allow any contracts signed before the passage of the law to stand even after the GOI agreed to a new law.

#### SERP and PEZ Updates

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16. (C) Shahrستاني spoke about progress made on the SERP project. He noted that the MoO had signed three contracts for surveys in the northern Gulf. He requested Deputy Oil Minister (DM) Shamma provide a project update. Shamma said that the kick-off meeting for the surveys would be held between January 9 and January 13, 2009. The surveys should start at the end of January to the beginning of February

¶2009. He noted that the MoO had contacted the Iraqi Ministry of Foreign Affairs to request they inform Iraq's maritime neighbors, Kuwait and Iran, about the upcoming survey work. He added that, in consideration of the unsettled status of Iraq's maritime borders, the surveys would be conducted to remain within the most conservative estimations of Iraq's territorial waters. He said that the first survey would be for unexploded ordnance (UXO) and then followed by a survey of the seafloor to evaluate whether to add single point moorings (SPM) or a new platform. This would depend primarily on requirements for dredging and tug boat requirements. Shahrستاني commented that, even though these surveys are the preliminary work, the MoO could start work on the long-lead items needed to complete the work of building new pipelines. Shamma agreed, but noted that Foster Wheeler, the project management company, would need to complete the first six to seven months of work before any decisions could be made on long-lead items.

¶7. (C) Shahrستاني commended the PEZ project and asked that the USG continue to provide its support to the effort. The Minister complained that attacks continued on the Bayji to Baghdad line where the USG is constructing the final PEZ project. Econoff noted that the Bayji to Baghdad PEZ is on schedule and contracting issues with the Ministry of Defense (MoD) for constructing the infrastructure for MoD security forces had delayed MoD's portion of the PEZ's completion. Shahrستاني noted that there had been an attack which killed three members of a repair team on the Naft Khana pipeline to Baghdad and that security remained an issue. (Comment: The Minister's account had some factual errors. There have been no further attacks on the Bayji to Baghdad pipeline since start of the PEZ. Shahrستاني also seemed to have the impression that the PEZ project was not progressing. Additionally, the Naft Khana casualties resulted from an IED and involved the security unit assigned to the repair team. End comment)

#### Shell Gas Deal and EITI

¶8. (C) The Minister told EMIN that the Shell gas deal and Ahdab field development are progressing on schedule. He dismissed complaints about the Shell deal being a no-bid contract as groundless. He said that the deal was a joint venture and therefore not biddable. The MoO selected the best candidate with which to form a joint venture. The MoO would not pay Shell for services. The joint venture would divide the profits and costs between them. He complained

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that Al-Horra TV had spearheaded the disinformation about MoO deals. The Minister requested the USG restrain what he described as the State Department funded television station from criticizing MoO decisions. (Note: The station no longer receives USG funds. End note.) (Comment: All of the current deals on the table by the MoO require the formation of a joint venture company with a MoO entity. Thus, Shahrستاني could raise the same defense for no-bid contracts anywhere in the oil sector under the current deals offered. End comment.)

¶9. (C) Shahrستاني expressed enthusiasm for the Extractive Industries Transparency Initiative (EITI). He said that Nihad Moosa, DG for Development and Training, would head up the MoO effort to enlist in EITI. The Minister said that either he or Nihad (or both) would attend the Doha meeting.

#### Comment

¶10. (S) The Minister's comments did not reflect any of the concern evident within wider GOI circles regarding MoO's

inability to boost crude oil production in the face of falling oil revenues, as evidenced by DPM Barham Salih's statements to EMIN just three days later (ref A). While some of his misstatements reflect a disconnection from the realities on the ground, Shahrستاني was also likely being disingenuous and glossing over the MoO's operational issues and his own political difficulties. Shahrستاني's own subordinates have made statements to the media that contradict what he said in this meeting. Our own soundings with private industry suggest that the bidding in the licensing rounds will be tepid, at best. The one area where he seemed on target was his pessimism regarding prospects for passage of hydrocarbons legislation, but this is one area where he could personally make a difference by negotiating seriously with KRG officials and following up on the promising start of his November 24 meeting with KRG Prime Minister Nechirvan Barzani (refs B and C).

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